REPORT ON EXAMINATION
AS TO THE CONDITION OF
THE SERVICE INSURANCE COMPANY
80 MAIN STREET
WEST ORANGE NEW JERSEY
NAIC COMPANY CODE 28240

F I L E D

June 1, 2010

Commissioner
Department of Banking & Insurance

March 22, 2010

Honorable Thomas B. Considine
Commissioner of Banking and Insurance
State of New Jersey
20 West State Street
Trenton, New Jersey 08625

Commissioner:

In accordance with the authority vested in you by the provisions of N.J.S.A. 17:23-22, a financial examination has been made of the assets and liabilities, methods of conducting business and all other affairs of the:

SERVICE INSURANCE COMPANY, INC.
80 MAIN STREET
WEST ORANGE, NJ 07052
N.A.I.C. COMPANY CODE 28240

a property and liability insurance organization authorized to transact business in the State of New Jersey, and hereinafter referred to as "SIC," "Service" or "Company."

SCOPE OF EXAMINATION

This examination covered the three-year period from January 1, 2006, through December 31, 2008, and included material transactions and/or events occurring subsequent to the examination date noted and during the course of this examination. The financial condition examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by N.J.S.A. 17:23-22, and was carried out at the Company's administrative office located at 80 Main Street, West Orange, NJ 07052.

The conduct of the examination was governed by the procedures outlined in the National Association of Insurance Commissioners Financial Condition Examiner's Handbook and followed accepted procedures of regulatory authorities and generally accepted insurance company examination standards. In determining emphasis to be placed on specific accounts, consideration was given to the Company's system of internal control, the nature and size of each account, its relative importance to solvency and the annual audit work performed by the Company's certified public accountants. No accounts were assigned to a special emphasis category. Asset and liability accounts that are generally "material" were assigned to a standard emphasis category. The accounts requiring standard emphasis were as follows:

- Bonds and Common Stocks
- Cash and Short-Term Investments
- Agents' Balances or Uncollected Premiums
- Other Amounts Receivable Under Reinsurance Contracts
- Losses and Loss Adjustment Expenses
- Other Expenses
- Taxes, Licenses and Fees
- Current Federal and Foreign Income Taxes
- Funds Withheld or Retained by the Company for Account of Other
- Unearned Premiums

All other accounts were assigned to reduced emphasis or analytical review procedures only.

Additional areas reviewed were in part as follows:

- Company History
- Management & Control
- Reinsurance
- Employee Welfare Insurance and Pension Plans
- Insurance Products and Related Services
- Fidelity Bond and Other Insurance Coverages
- Accounts and Records
- Holding Company System
- Inter-Company Agreements
- Statutory Deposits
- Reinsurance

This report is presented using the NAIC alternate format. For balance sheet accounts and any other accounts, a discussion of adverse findings, material changes in the financial statements and other important regulatory information disclosed by the examination are included. The discussions of these matters are presented in the order that these areas are listed in the financial statements. If the account does not disclose a significant adverse finding, a material change in the financial statements or other regulatory change of significance, no comments on the account is made.

COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS

The following is a summary of the Company's response to the recommendations of the previous examination report dated as of December 31, 2005:

Custodial Agreements

It was recommended that the Company enter into a custodial agreement with a qualified New Jersey banking institution and the agreement contain provisions that would meet the requirements of Section IV, paragraph H(1) & (2) of the NAIC Financial Condition Handbook to cover satisfactory indemnification, safeguard and controls.

The current custodial agreement was reviewed and was found to comply with the requirements a referenced above.

Escheatment

It was recommended that the Company formulate and implement procedures explaining the handling of stale dated checks in regards to unclaimed payment/refunds and other escheatable funds, and institute a system to account for their existence and clearance.

The current review did not note any concerns related to this area.

Board of Directors

It was recommended that the Company reduce and maintain the number of directors consistent with Article II, Section I of the by-laws, or amend the by-laws to increase the number of members required of the Board.

The Company has amended their by-laws and is now in compliance with regard to the number of directors.

Corporate Records

In order to obtain a complete picture, and facilitate a thorough assessment, of issues and subject matters brought before the Board. It was recommended that records related to such board activities be included with and made part of future board minutes.

Review of the minutes of the Board of Directors indicated that the proceeding of the Board were documented.

Policy on Conflict of Interest

It was recommended that all Board members thoroughly disclose conflicts of interest, whether actual or potential, and submit these to the Board for its evaluation. It was also recommended that the Company address such conflicts and report details thereof in the minutes of the Board.

A review of the Company’s conflict of interest questionnaires indicated that directors complete questionnaires and that those questionnaires are reviewed by the Audit Committee.

Disaster Recovery

It was recommended that Service update and prepare a more detailed security precautionary plan, which should include at a minimum the following suggested items:

Backup procedures
Fallover Precautions on Back up File
Disaster Recovery Contacts
Firewall and Anti-Virus Support
Alternate Location

Review of the current plan indicates it is sufficient for the Company's needs.

Bonds and Common Stocks

It was recommended that the Company submit all newly purchased securities to the SVO in accordance with the requirements of National Association of Insurance Commissioners Securities Valuation Office.

An examination review indicated that securities were filed with the National Association of Insurance Commissioners Valuation Office as appropriate.

Cash and Short Term Investments

It was recommended the Company reconcile and report all bank accounts and correctly record all inter-company transfers before year-end

The Company has complied with this recommendation

It was recommended that the Company account for investments in accordance with the stipulations of the NAIC Accounting Practices and Procedures Manual and report these in the corresponding annual statement schedules to which they belong.

The Company currently reports investments as required by annual statement instructions.

Loss and Loss Adjustment Expenses

It was recommended that the Company correct Schedule P reconciliation discrepancies and restate its 2004 and 2005 Schedule P.

The current examination revealed some minor differences in reconciling Schedule P. These differences were discussed with the Company and will be included in the Examination report or the Summary Review Memorandum which is presented to the Company at the completion of the examination.

COMPANY HISTORY

Service Insurance Company, Inc. was formed pursuant to a Certificate of Incorporation ("Certificate") dated June 10, 1987, which was signed by ten incorporators and approved by the Attorney General of New Jersey on August 5, 1987. The Certificate provided that the Company was to be a stock company with a capital stock of two-hundred thousand dollars ($200,000) divided into twenty-thousand (20,000) shares of common stock with each share having a par value of ten dollars ($10.00). The Certificate was filed firstly in the Office of the Essex County Clerk on September 30, 1987, and then with the New Jersey Department of Banking and Insurance (hereafter "NJDOBI" or "Department") on October 21, 1987.

The Company is authorized to transact the business of insurance as specified in N.J.S.A. 17:17-1, et seq., e.g., property and casualty. Service commenced business operations on December 21, 1987.

By resolution and unanimous consent of the Board of Directors on April 13, 1998, the Company restated and amended the "SECOND" article of the Certificate, which was approved by the Attorney General of New Jersey on May 7, 1998, to reflect a change of business location from 354 Park Avenue, Newark, New Jersey to 80 Main Street, West Orange, New Jersey.

On May 1, 1998, by a unanimous consent of the Board of Directors, the Company amended the by-laws and changed the annual shareholders meeting from the second Monday in February to May 1 of each year.

On July 22, 1998, the Company executed a Certificate of Amendment to effect a revision of the "THIRD" and "FIFTH" articles of incorporation. The Certificate of Amendment was filed with NJDOBI on October 26, 1998. The Third Article allowed SIC to transact the kind of insurance and reinsurance as authorized by paragraph "g" of Section 17:17-1 of the New Jersey Revised Statutes. The amendment to the Fifth Article raised the capital stock to five hundred thousand dollars ($500,000) divided into fifty-thousand (50,000) shares, each of which will have a par value of ten dollars ($10.00).

On December 20, 2000, the Company again executed a Certificate of Amendment to effect a revision of the "FIFTH" article of incorporation, authorizing an increase of the par value from ten dollars ($10.00) per share to twenty dollars ($20.00) per share, and thereby raising the amount of capital stock from five-hundred-thousand dollars ($500,000) to one-million dollars ($1,000,000). The amendment was approved by the New Jersey Deputy Attorney General on January 25, 2001.

The Company's most recent and amended Certificate of Authority, dated December 10, 2001, provides that the transaction of any business of fidelity and surety insurance by Service in any jurisdiction is hereby subject to the following conditions:

> "Service shall not expose itself to any loss on any one risk or hazard in this State to an amount exceeding 10% of its net asset (increased from 5% which was effective May 6, 1996).
>
> "Prior approval must be obtained for the entering into any reinsurance arrangements.
>
> "Net premiums written to surplus as regards policyholders shall not be greater than 3 to 1.
> "Gross premiums written to surplus as regards policyholders shall be no greater than 5 to 1.
>
> "Prior approval must be obtained before Service enters into any agreement between itself and an affiliate."

The Company's statutory and main administrative office is located at 80 Main Street, West Orange, New Jersey 07052. The registered agent in charge, upon whom process may be served, is William M. Burger, Vice President.

MANAGEMENT & CONTROL

Stockholders

The by-laws of the Service Insurance Company, Inc. state that the Annual Meeting of the shareholders of the Company shall be held on the first of May in each year, or the next succeeding business day upon a legal holiday, at an hour to be named in the notice or waiver of notice of the meeting, for the election of directors and for the transaction of such other business as may properly come before the meeting.

Each shareholder shall be entitled to one vote, in person or by proxy, for each share entitled to vote held by such shareholder. Except as otherwise required by law, the Certificate of Incorporation or by the by-laws, the presence, in person or by proxy, of shareholders holding a majority of the shares of the corporation entitled to vote shall constitute a quorum at all meetings of the shareholders.

Board of Directors

The by-laws vest the management and corporate powers of the Company in a Board of Directors (the "Board"). The Board shall be composed of not less than three (3) or more than nine (9) members, and shall be elected at the annual meeting of the shareholders. Each director shall be elected to hold office until the next succeeding annual meeting and, subject to law and the by-laws, shall hold office for the term for which elected and until a successor shall be elected and shall qualify.

The Board shall elect one additional person to serve as Chairman to preside over all meetings and participate in the work and functions of the Board, except he or she shall cast no vote on any matter except in the case of a tie in the votes cast by other Board members.

The duly elected members of the Board serving at December 31, 2008, were as follows:

Name	Principal Occupation
William R. Burger, Chairman	Vice President Service Insurance Company, Inc.
Glen Burger, Treasurer	Secretary, Treasurer Service Insurance Company, Inc.
James S. Burger	President Service Insurance Company, Inc.
Andrew Burger	Vice President Gill and Roeser, Inc.
Andrew Durkin	President Durkin Agency
Richard Feldman, Esq.	Attorney
Richard Grodeck, Esq.	Attorney
Bruce Hill	President R. Bruce Hill Agency
Ronald Sarno, Esq.	Attorney

David Schechner, Esq.	Attorney

The Company is required to comply with the provisions of N.J.S.A. 17:27A-4d(3) which state that, "not less than one-third of the directors of a domestic insurer shall be persons who are not officers or employees of that insurer or of any entity controlling, controlled by, or under common control with, that insurer and who are not beneficial owners of a controlling interest in the voting securities of that insurer or any such entity." The Company was determined to be in compliance with this statute, as the Board of Directors consists of ten members, of which seven members are considered outside directors.

At December 31, 2008, the Company had an audit committee comprised entirely of outside directors. This committee included the following members at December 31, 2008:

Audit Committee

David Schechner Chairman
Richard Grodeck
Ronald Sarno
Richard Feldman
Bruce Hill

The Company is also required to comply with the provisions of N.J.S.A. 17:27A-4d(4) which state that, "the board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with, the insurer and who are not beneficial owners of a controlling interest in the voting securities of the insurer of any such entity." The Company was determined to be in compliance with this statute, as they maintain an Audit Committee of five Board members, each of which is considered an independent, outside director.

Officers

The by-laws of the Company stipulate that the officers of the Company shall be a President, one or more Vice Presidents, a Secretary, and a Treasurer, all of whom shall be elected by the Board and who shall hold office, subject to the by-laws, until their successors are elected and qualified. In addition, the Board may elect a Chairman of the Board and such Assistant Secretaries and Assistant Treasurers as the Board may deem advisable.

The elected officers of the Company serving at December 31, 2008, were as follows:

Name	Office(s)
James S. Burger	President
William R. Burger	Vice President
Glen T. Burger	Secretary/Treasurer

The President shall be the chief executive officer of the Company, and shall exercise all the powers and perform all the duties usual to such office and shall preside at all meetings of the shareholders if present thereat. Subject to the Board, the President shall have general supervision of the business of the Company. He or she shall also perform such other duties and have such other powers as may be prescribed or assigned to him or her from time to time by the Board or the by-laws.

The Vice-President shall exercise, in the absence or incapacity of the President, all the powers and perform the duties of the President. The Vice President shall also perform such other duties and have such other powers as may be prescribed or assigned to him or her, from time to time by the Board or the by-laws.

The Treasurer shall exercise all the powers and perform all the duties usual to that office, including having the care and custody of the funds and securities of the Company and depositing the same with such depositories as the Board may designate. The Treasurer shall also perform such other duties and have such other powers as may be prescribed or assigned to him or her from time to time by the Board or the by-laws.

The Secretary shall exercise all the powers and perform all the duties usual to such office including keeping the minutes of the meetings of the Board and of the shareholders, having custody of the seal of the Company and affixing the seal to documents when authorized to do so. He or she shall also perform such other duties and have such other powers as may be prescribed or assigned from time to time by the Board or the by-laws.

In the event of the absence of any officer of the Company, or for any other reason that may be sufficient to the Board, the directors may, by majority vote, delegate the powers and duties of such officer, temporarily, to any other officer or director.

Policy on Conflicts of Interest

The Company has adopted a formal program for the identification of circumstances which would constitute a conflict of interest ("COI") between SIC and an officer or director thereof. Each year all officers and directors of the Company are required to complete and execute a conflict of interest questionnaire which requires the individual to disclose any act or affiliation that is likely to conflict with his or her official duties.

Service provided completed COI questionnaires applicable to the examination period.

Conflict of interest questionnaires are reviewed by the Audit Committee. The Audit Committee will make decisions as to whether an individual's outside interests constitute a conflict and will recommend if necessary that an individual recluse himself from matters which come before the board where it is deemed they have a conflict.

Dividends to Stockholders

There were no stockholder dividends issued by Service during the examination period.

HOLDING COMPANY SYSTEM

Affiliated Companies

The Company is a member of an insurance company system as defined in N.J.S.A. 17:27A-1 and as such has registered with the Commissioner of Banking and Insurance of the State of New Jersey under N.J.S.A. 17:27A-3. At December 31, 2008, the beneficial owners of The Service Insurance Company were William Burger who owned 50% of the outstanding stock and James Burger who had a 48% ownership share in the Company. William Burger also owned Service Glass Agency. It is noted that Service Glass Agency became inactive in 2009.

In accordance with N.J.S.A. 17:27A-3(a), the Company is required to file an Annual Registration Form B and C with the NJDOBI on an annual basis. The Form B and C filing, due as of April 1, 2008, has been appropriately submitted to the Department.

INTER-COMPANY AGREEMENTS

Facility Fee Agreement

The Company entered into an Amended Facility Fee agreement with Service Glass Agency of New Jersey, Inc., an affiliate, effective January 1, 2001. Under the terms of this agreement, Service Insurance Company allows Service Glass Company the use of its facilities as needed for Service Glass Company to conduct their business for a fee as stipulated in the agreement. It is noted that Service Glass Company became inactive in 2009 and the agreement is no longer in effect.

EMPLOYEE WELFARE INSURANCE AND PENSION PLANS

The Company maintains a medical plan in which it pays eighty percent (80%) of the cost for single coverage, with employees paying the remainder. The plan, however, does not offer spousal and/or dependent coverages. As of January 1, 2009, the Company has instituted a 401K plan for its employees. Under the Plan, the Company will contribute up to 3% of the employee's salary on their behalf regardless of the amount contributed by the employee.

There is also an employment contract in effect for James Burger.

STATUTORY DEPOSITS

At December 31, 2008 the Company had statutory deposits with the State of New Jersey having a book value of $772,535 and the State of Delaware with a book value of $11,454.

INSURANCE PRODUCTS AND RELATED SERVICES

Territory and Plan of Operation

The Company specializes in underwriting contract surety; bid and performance bonds for small subcontractors and miscellaneous surety; tax, probate and notary bonds. At December 31, 2008 the Company was licensed in Connecticut, Delaware, New Jersey, New York and Pennsylvania. In 2009 the Company obtained licenses in Maryland and New Hampshire.

Bonds are distributed through independent agents. At December 31, 2008 the Company had approximately 30 active agents.

Direct premiums written were as follows:

2006	$2,111,080
2007	$2,291,988
2008	$2,655,534

The increases in premiums written for the period is in accordance with the Company's plan for continued measured and steady growth as they expand into additional states.

In placing reinsurance, the Company utilizes the services of a reinsurance intermediary Gill and Roesner, Inc. A review of the intermediary indicated they have the appropriate licenses and that the contract met the requirements of New Jersey Statutes.

The Company has an agreement in effect with Vision Financial Group, CPAs LLP to assist in the quarterly adjustment of the books and records including the preparation of adjusting journal entries and to prepare the quarterly and annual statements of the Company in the NAIC required format.

Policy Forms and Underwriting Practices

The Company utilizes standard Surety Association of America or American Institute of Architects bond forms, which are listed below:

Bid/performance
Wage and welfare
Subdivision
Lost instrument
Court
License/Permit
Probate

The Company policy for underwriting a new or existing account is to follow an underwriting checklist. Service feels these guidelines/procedures are an effective way to communicate the requirements to the agent and principal. The procedures/guidelines, in general and in part, are summarized below:

1. Contractors must complete a questionnaire or applicable bond application for non-contract surety. This is important for conducting personal credit checks and to help ensure that the indemnification agreement is completed in its entirety.

2. The two most recent business year financial and any interim statement are obtained. Depending on the financial a stricter collateral requirement may be necessary and as a result imposed.

3. Personal financial and personal credit checks are always required and imposed. Adverse reports equate to declining the application or increasing the collateral requirement.

4. Schedule of work on hand is required.

5. Bid and bond request forms and key bid pages from the contract specifications are required so they can be evaluated by the underwriters.

Advertising and Sales Material

A review and sampling of advertisement materials submitted by the Company determined SIC to be in compliance with N.J.S.A. 17:18-10, which requires a company that is advertising its assets to also advertise liabilities in an equally conspicuous manner.

Treatment of Policyholders

A review was made of the Company's complaint register for grievances filed during the period of examination.

The inspection of these files determined that the Company was in compliance with N.J.S.A. 17:29B-4(10), which requires the maintenance of a complete record of all written complaints.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Company's Fidelity Bond coverage is insured by CNA Surety. The coverage of $100,000 meets the National Association of Insurance Commissioners suggested minimum amount of coverage.

A summary of other insurance coverages in effect at December 31, 2008 is as follows.

Commercial Property coverage is provided by Farmers Insurance Company of Flemington and includes coverage for Business Personnel Property Protection to $31,907 subject to a $500 deductible and Business Income to a limit of $36,000 with no deductible.

Commercial Liability coverage is also provided by Farmers Insurance Company of Flemington. The coverage has a per occurrence limit of $1,000,000 and a general aggregate limit of $2,000,000 excluding products completed operation which has an aggregate limit of $1,000,000. In addition the limit for personal and advertising so $1,000,000 while the fire limit legal liability is $50,000 any one fire and the medical expense limit is $5,000 any one person.

Corporate Directors and Officers and Employment Practices Liability is provided by United States Liability Company. The coverage is to $1,000,000 each claim and in the aggregate. For the Employment Practices Liability Coverage the is a retention of $5,000.

The Travelers Insurance Company provides the Company with Workers Compensation and Employers Liability Coverage. The Workers Compensation coverage is provided to statutory limits while the Employers Liability coverage is as follows

Bodily Injury by Accident	$1,000,000 each Accident
Bodily Injury by Disease	$1,000,000 policy limit
Bodily Injury by Disease	$1,000,000 each Disease

The Farmers Insurance Company of Flemington has provided the Company with a Commercial Umbrella Policy which provides coverage in excess of the Company's underlying insurance policies. The coverage is $1,000,000 per occurrence and in the aggregate.

REINSURANCE

The Company, as of December 31, 2008 had in effect a variable quota share reinsurance agreement with Endurance Re. The agreement provides coverage for bonds written by the Company as follows.

Limit of Liability of the Reinsurer

Bond Limit	Retention	Cession
$0 - $50,000	85%	15%
$50,001 - $150,000	75%	25%
$150,001 - $300,000	65%	35%
$300,001 - $ 500,000	35%	65%
$500,001 - $ 750,000 (1)	25%	75% (Not to exceed $562,500)
$750,001 - and Greater (2)	Subject to Special Acceptance	

1) All bonds $600,001 and greater are subject to special acceptance and will follow the retention pattern stipulated above.

2) For all bonds $750,000 and greater that are specially accepted, the cession and retention will be negotiated with the Reinsurer. However, in no event shall the Company retain a sum greater than its Treasury Limit listed in the Department of the Treasury's Listing of approved Sureties (Department Circular 570).

The Company will cede and the Reinsurer shall be obligated to indemnify the Company for the percentage of "loss" incurred by the Company plus the same proportionate share of "loss adjustment expenses" payable, in addition to "loss" pursuant to the limit of liability of the reinsurer.

The Contract provides for a ceding commission of 45.5% and a contingent commission from the reinsurer equal to 27.5% profit of the net profit under the agreement, if any.

ACCOUNTS AND RECORDS

The Company's accounting records are maintained at the main administrative office (80 Main Street, West Orange, NJ 07052). The Company upgraded the computer system during October through December 2007, which consisted of Dell workstations on a dual-server driven network, and utilized a Microsoft Windows XP Professional operating system.

The Company utilizes a computerized general ledger accounting software product called **QuickBooks Enterprise 2010**, which was upgraded in January 2010 from Quickbooks Premier 2007 Edition. The system can be customized to accommodate the specific needs of a small business. The general ledger system is fully integrated for agent premium balances, accounts payable, premium invoicing, payroll, cash, investments, and adjusting journal entries reflecting the detailed activity of each account over a period to time. The Company's 2008 general ledger amounts were reconciled to the annual statement.

The Company’s premium invoicing system, including agent’s balances, is performed through QuickBooks Enterprise 2010, which keeps track of premiums owed the Company. The premiums are summarized monthly and electronically transferred to IDS (Information Data Systems). IDS is an outside service that provides the Company with the ability to monitor and report on premium earnings. IDS prepares detailed reports by bond numbers.

The Doc Star document management system was implemented in August 2008 and is employed for all permanent records. The system has dramatically reduced the need for paper file storage and allows instant retrieval and dissemination of information. Also, original signed indemnity agreements, bank collateral instruments and other permanent documents are stored in fireproof safes.

The Company does not rely on paper records for its operations. Administrative, financial, accounting, bond logs, broker powers, broker agreements, policy records, taxes, payroll and other records are stored electronically in a document management system (Doc Star) and are accessible remotely and are fully portable in the event of a localized disaster. The daily backup procedure of all files on the Doc Star and company servers is triply redundant and involves a) local backup and storage to a second hard drive; b) physical removable LT03 tape and DVD-RAM cassettes which are rotated and removed to an offsite location on a nightly basis; and c) remote online backup of each server. Periodic tests are conducted to verify that the backup storage is media is sound. Full test restores of data are performed quarterly at one of two recovery locations that the Company employs in Secaucus, New Jersey and in East Hampton, New York, where full recovery may be implemented in the case of a localized disaster. The backup files may be installed at a second location at any time as part of the Company Disaster Recovery Plan.

All claims are handled by an officer of the Company. Proof of loss is always required and inquiries are made to the principal as to ascertain the validity of any claim. Losses, when incurred, are directly expensed to a loss adjustment account in the general ledger. The Company maintains separate general ledger accounts for actual losses, loss reserves and loss adjustment expenses.

Pursuant to N.J.A.C. 11:2-26.4 an annual audit was performed by the CPA firm Bonamassa, Maietta & Cartelli, LLP and an audited financial/CPA report was filed with the Commissioner of the New Jersey Department of Banking and Insurance. The report contains a synopsis of the major audit activities and results in the corporate area.

CONTINUITY OF OPERATIONS

Service has made provisions for the succession of officers in its by-laws. The Service Insurance Company has a formal disaster recovery plan. Review of the plan indicates it is adequate for the Company's purposes. In addition the Company has tested this plan.

FINANCIAL STATEMENTS

Financial statements and other exhibits are presented as listed below:

Exhibit – 1 Comparitive Statement of Assets, Liabilities and Surplus at December 31,2008

Exhibit – 2 Underwriting and Investment Exhibit
for the Three-Year Period ended December 31, 2008

Exhibit – 3 Capital and Surplus Account
for the Three-Year Period ended December 31, 2008

EXHIBIT I

COMPARATIVE STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS AT DECEMBER 31, 2008

Assets	Company	Examination	Note Number
Bonds	$2,355,573	$2,355,573	
Common Stocks	90,726	90,726	
Cash and Short-Term Investments	6,096,076	6,096,076	
Investment Income Due and Accrued	67,235	67,235	
Sundry Receivable	1,891	1,891	
Agents Balances or Uncollected Premiums:			
Premiums and Agents' Balances In Course of Collection	309,930	309,930	
Other Amounts Receivable From Reinsurers	110,414	110,414	
Total Assets	$9,031,845	$9,031,845	

Liabilities, Surplus and Other Funds	Company	Examination	Note Number
Losses	$698,682	$698,682	1
Loss Adjustment Expenses	131,909	131,909	1
Other Expenses	117,015	117,015	
Taxes, Licenses and Fees	146,175	146,175	
Current Federal and Foreign Income Taxes	65,500	65,500	
Unearned Premiums	693,297	693,297	
Amounts Withheld or Retained by Company for Account of Others	3,281,395	3,281,395	
Total Liabilities	$5,133,973	$5,133,973	
Common capital Stock	$1,000,000	$1,000,000	
Gross Paid In and Contributed Surplus	$839,198	$839,198	
Unassigned Funds	2,058,674	2,058,674	
Surplus as Regards Policyholders	$3,897,872	$3,897,872	2
Totals	$9,031,845	$9,031,845	

EXHIBIT II

UNDERWRITING AND INVESTMENT EXHIBIT FOR THE THREE YEARS ENDING DECEMBER 31,2008

	DECEMBER 31, 2006	DECEMBER 31, 2007	DECEMBER 31, 2008
UNDERWRITING INCOME			
Premiums Earned	$1,192,701	$1,187,957	$1,371,917
Deductions:			
Losses Incurred	$284,390	$143,291	$190,973
Loss Expenses Incurred	168,050	217,346	165,268
Other Underwriting Expenses Incurred	505,366	483,785	435,023
Total Underwriting Deductions	$957,806	$844,422	$791,264
Net Underwriting Gain or (Loss)	$234,895	$343,535	$580,653
INVESTMENT INCOME			
Net Investment Income Earned	$299,118	$309,154	$269,709
Net Realized Capital Gains or (Losses)	1,320	(55)	0
Net Investment Gain or (Loss)	$300,438	$309,099	$269,709
OTHER INCOME			
Finance and Service Charges not Included in Premium	$3,763	$13,275	$21,110
Miscellaneous Income	306	2,588	0
Total Other Income	$4,069	$15,863	$21,110
Net Income Before Dividends to Policyholders Federal and Foreign Income Taxes	$539,402	$668,497	$871,472
Dividends to Policyholders	$0	$0	$0
Net Income after Dividends to Policyholders but before Federal and Foreign Income Taxes	$539,402	$668,497	$871,472
Federal and Foreign Income Taxes Incurred	156,800	231,661	295,500
NET INCOME	$382,602	$436,836	$575,972

EXHIBIT III

CAPITAL AND SURPLUS ACCOUNT

	2006	2007	2008
	-	-	-
OTHER SURPLUS GAINS OR (-) LOSSES			
Net Income	$382,602	$436,836	$575,972
Change in Unrealized Capital Gains and Losses	23,539	(2,568)	(50,826)
Change in Nonadmitted Assets	(100,027)	72,325	(46,893)
Aggregate Write-ins for Gains and Losses in Surplus	2,034	(3,971)	(3,290)
Increase or (Decrease) in Surplus as Regards Policyholders	$308,148	$502,622	$474,963
Surplus as Regards Policyholders: December 31, Prior Year	2,612,139	2,920,287	3,422,909
Surplus as Regards Policyholders: December 31, Current Year	$2,920,287	$3,422,909	$3,897,872

NOTES TO FINANCIAL STATEMENTS

Note 1 - Losses and Loss Adjustment Expenses

At December 31, 2008, the Company reported a reserve for losses of $698,682 and for loss adjustment expenses of $131,909. A review of these liabilities by actuaries from the New Jersey Department of Banking and Insurance's Solvency Regulation Division indicated the reserves established by the Company were adequate.

During their review the Actuary's noted that the Company could not provide an actuarially acceptable method to support their calculation of unallocated loss adjustment expenses. Although the differences in the calculation of unallocated loss adjustment expenses were not considered material it is recommended the Company establish an actuarially acceptable method for establishing unallocated loss adjustment expense reserves.

The data provided to the actuary was reconciled to the Company's Schedule P and other supporting data. During the reconciliation of the data it was noted that the Company in their filed annual statement reported paid loss data in Schedule P gross of salvage and subrogation. The NAIC annual statement instructions require that paid loss data in Schedule P be reported net of salvage and subrogation. This issue was discussed with the Department's actuary who did not feel it would have a material effect on his analysis. It is recommended in future filed annual statements that the Company report paid loss data in accordance with NAIC Annual Statement instruction. No other material differences were noted during the review of actuarial data.

NOTE 2- SURPLUS AS REGARDS POLICYHOLDERS

The Capital Stock of the Company at December 31, 2008 was $1,000,000 consisting of 50,000 shares with a par value of $20 each... The Gross Paid in and Contributed Surplus and Unassigned Funds (Surplus) reported by the Company and as determined by this examination were $839,198 and $2,058,674, respectively.

SUMMARY OF RECOMMENDATIONS

Note 1- Losses and Loss Adjustment Expenses

During this review the Actuary's noted that the Company could not provide an actuarially acceptable method to support their calculation of unallocated loss adjustment expenses. Although the differences in the calculation of unallocated loss adjustment expenses were not considered material it is recommended the Company establish an actuarially acceptable method for establishing unallocated loss adjustment expense reserves.

During the reconciliation of the data it was noted that the Company in their filed annual statement reported paid loss data in Schedule P gross of salvage and subrogation. The NAIC annual statement instructions require that paid loss data in Schedule P be be reported net of salvage and subrogation. This issue was discussed with the Department's actuary who did not feel it would have a material effect on his analysis. It is recommended in future filed annual statements that the Company report paid loss data in accordance with NAIC Annual Statement instruction. No other material differences were noted during the review of actuarial data.

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES-STATEMENT BY NJDOBI ACTUARY

THE SERVICE INSURANCE COMPANY

I, Boris Privman, FCAS, MAAA, Managing Property and Casualty Actuary for the New Jersey Department of Banking and Insurance, have performed an actuarial review of the reported December 31, 2008 loss and loss adjustment expense reserves for the Service Insurance Company. Based upon this review the Company's booked gross and net loss reserves should be accepted without adjustments.

Actuarial findings as stated above and in this examination report are the sole responsibility of the New Jersey Department of Banking and Insurance's Property and Casualty Actuarial Unit of the Office of Solvency Regulation..

__________/S/________________________
Boris Privman-Managing Actuary

CONCLUSION

The statutory condition examination was conducted by the undersigned with the support of the New Jersey Department of Banking and Insurance field and office staff, at the Company's administrative office located at 80 Main Street, West Orange, New Jersey 07052.

The courteous assistance and cooperation of the Company's officers and employees is acknowledged.

Respectfully submitted,

_______/S/_________

Robert Redden, CFE

SERVICE INSURANCE COMPANY, INC.

I, Robert Redden, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2008, to the best of my information, knowledge, and belief.

______/S/_________
Robert Redden, CFE

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Robert Redden, on this 30th day of April, 2010.

______/S/________________
Sheila M. Tkacs
Notary Public of New Jersey

My commission expires: July 2010